Coalition Ex. 1.0

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission On Its Own Motion	)	
- vs-	)	
Central Illinois Light Company, Central Illinois Public Service Company, Commonwealth Edison Company, Illinois Power Company, Interstate Power Company, MidAmerican Energy Company, Mt. Carmel Public Utility Co., South Beloit Water, Gas and Electric Company, and Union Electric Company,	)	Docket No. 99-0013
Respondents,	)	
Investigation Concerning the Unbundling of Delivery services Under Section 16-108 of the Public Utilities Act	)	

DIRECT TESTIMONY OF EDWARD C. BODMER ON BEHALF OF BLACKHAWK ENERGY SERVICES, L.L.C., eMETER CORP., ENRON ENERGY SERVICES, INC., NEWENERGY MIDWEST, L.L.C. AND PHASER ADVANCED METERING SERVICES

DATED: May 22, 2000

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission On Its Own Motion	)	
- vs-	)	
Central Illinois Light Company, Central Illinois Public Service Company, Commonwealth Edison Company, Illinois Power Company, Interstate Power Company, MidAmerican Energy Company, Mt. Carmel Public Utility Co., South Beloit Water, Gas and Electric Company, and Union Electric Company,	)	Docket No. 99-0013
Respondents,	)	
Investigation Concerning the Unbundling of Delivery services Under Section 16-108 of the Public Utilities Act	)	

DIRECT TESTIMONY OF EDWARD C. BODMER

Q. What is your name and on whose behalf are you testifying?

A. My name is Edward C. Bodmer. I am testifying on behalf of Blackhawk Energy Services, L.L.C., Enron Energy Services, Inc., eMeter Corp., NewEnergy Midwest, L.L.C. and PHASER Advanced Metering Services (collectively, the "Unbundling Coalition").

Q. What do the members of the Unbundling Coalition have in common?

A. The coalition members do not have franchised service territories in Illinois and they all have a common interest in the development of vibrant competitive markets for metering services in Illinois. In particular, the coalition members

advocate tariffs that will allow them a reasonable chance of competing with host utility companies for metering services.

I.
BACKGROUND

Q. Summarize your educational background and professional experience.

A. I received a B.S., with highest honors, in Finance from the University of Illinois in 1979 and an MBA, with honors, from the University of Chicago in 1986. For the past ten years I have developed a consulting practice in the electric utility industry, which has involved assignments for financial institutions, utility companies, government agencies, alternative retail electric suppliers ("ARES"), and meter service providers ("MSP"). My projects have addressed issues related to industry re-structuring, forecasting, pricing, resource planning and performance evaluation. I have testified before the Illinois Commerce Commission ("Commission") and other regulatory bodies on a wide variety of subjects, including revenue requirements, cost-of-service and rate design. I have completed a number of assignments dealing with deregulation of electric utility generation, including an analysis of the divestiture of generating assets on behalf of the Maine Public Service Commission. I recently submitted testimony on behalf of a Coalition of ARES during the first phase of the instant proceeding.

My regulatory experience began in 1979 with my employment on the Accounting and Finance Staff of the Commission, and has encompassed numerous assignments on regulatory issues while employed by the Commission and as a private consultant. From 1986 to 1990, I was employed at the First National Bank of Chicago where I managed the credit analysis of all energy loans, including transactions with electric and gas utility companies. I was promoted to Vice President and I directed a number of energy-related financial advice projects for bank clients. I have taught economics courses at Lewis University and I have developed and taught specialized financial modeling and economics courses throughout the world.

Q. Do you have experience with respect to cost studies and rate design in Illinois?

A. Yes. I have a general familiarity with the utility companies in Illinois from my work on the Commission Staff in the 1980's. Since 1990, in the context of several consulting assignments, I have repeatedly analyzed rate design and cost-of-service issues related to the tariffs of Commonwealth Edison Company ("Edison"). Relevant regulatory projects include: testimony on cost-of-service and rate design in Edison's 1994 rate case; analysis on behalf of the Suburban Councils of Government with respect to implementation of the Infrastructure Maintenance Fee and the Utility Tax; development of analyses to support the City of Chicago's franchise negotiations with Edison in 1990 and 1991; and analysis of electricity legislative options on behalf of the Local Government Electricity Alliance, a coalition which deals with electricity purchases and other matters for the Chicago Transit Authority, the Chicago School Board, the Chicago Park District, the Chicago City Colleges and the City of Chicago.

II.
PURPOSE AND CONTEXT OF TESTIMONY

Q. What is the purpose of your testimony in this phase of the proceeding?

A. My testimony presents the Unbundling Coalition's review of the filings made by the utilities in the final phase of this proceeding with respect to unbundled metering services tariffs that apply to MSPs and modifications to delivery service tariffs. The focus of this testimony is on economic and policy issues associated with how electric bills will change for consumers who choose to select a provider of metering services other than the incumbent utility company. I also review how tariff provisions affect the cost structure of potential competitors to the host utility company.

Q. With respect to pricing issues, do the interests of incumbent utility companies differ from the interests of MSPs?

A. Yes. Given the sheer volume of testimony presented by the utilities and the technical nature of the discussion therein, it may appear that this proceeding simply involves mechanical calculations that implement previous Commission orders. This sheer volume of technical details can hide the economic motivations of the host utility companies. Before describing specific recommendations or considering arguments for alternative policies, it is useful to understand the general motivations of parties in this proceeding.

Q. What are the general motivations of the parties in the instant proceeding?

A. There are some areas in which utility companies have an economic interest that is contrary to the interests of MSPs and consumers. One example is the level of metering service charges in the tariff. This proceeding will establish the effective dollar amount that customers can save on their electric utility bills from choosing a MSP. The higher the bill savings – the difference in customer charges between electric bills with and without using the host utility for metering services – the faster a market will develop. This means the higher the measured meter cost – resulting in a higher standard meter service charge (that can be avoided by customers who switch to a MSP), the better for competition.

Additionally, it is important to keep in mind that the effective price for a MSP competing with a host utility company is the **difference** between the customer charge if a customer retains the utility company and the customer charge without the host company providing metering services. ~~This means that~~ ~~I~~if the utility company artificially reduces prices for customers who do not switch to alternative MSPs, monopolies will be maintained. In the end, without competition, all customers will suffer.

Q. Do the economic interests of incumbent utility companies differ from the

interests of both MSPs and customers with respect to issues other than pricing?

A. Yes. In addition to the direct pricing considerations, the Commission policies can impact the development of competitive markets in indirect ways by affecting the cost structure for MSPs. If customers are subject to ~~artificially inflated fees or~~ unnecessary requirements~~,~~ and/or if excessive fees are placed upon MSPs, the cost structure of the MSPs will be increased and the market will not develop in an optimal manner. Similarly, if MSPs have to expend resources to meet differing specialized requirements for each utility company in the State, their costs will increase and competition will suffer. In particular, the lack of uniform terms and conditions in MSP tariffs and in the related contracts will likely prevent or retard effective competition from developing outside of the Edison service territory.

Host utility companies have economic motivations that are different from competing suppliers and customers. In order to maintain revenues and increase returns to their shareholders, utility companies apparently believe that competition in metering services should not develop quickly in their service territory. Furthermore, the utility companies generally have demonstrated in the course of the instant proceeding that they prefer to lose as little revenue as possible when customers select an alternative MSP. ~~This means that~~ W~~w~~hile utility companies may give lip service to the benefits of competition, their economic interests are diametrically opposed to advocates of a vibrant competitive market.

Q. Please summarize the motivations of would-be competitors and utility companies in this case.

A. The table below summarizes the general directions of positions that are favorable to parties in this case:

Table 1

	PRO-COMPETITIVE POSITION	***UTILITY POSITION***
Computation of the costs of metering service	High measured costs of meter services are beneficial to competition.	Low measured costs of meter services will allow utility to maintain monopoly position.
Computation of the difference between customer charges for remaining on the system and costs if customers select alternative suppliers	Accurate calculation is most desirable for MSPs who have an economic interest in assuring that costs for customers who remain with the host utility are not understated.	Costs that are lower for customers who remain with the host company are favorable for maintaining a monopoly position.
Magnitude of implementation expenditures	Assuming that implementation expenditures will be charged to ratepayers, competitors are better off if the costs are just sufficient to allow competition.	If utility companies can recover implementation expenditures, they have an incentive to "gold plate" processes which will limit rather than promote competition.
Indirect costs imposed on MSPs from requirements in utility company tariffs	Terms and conditions should be limited to those that are necessary to providing efficient and reliable service.	Utility companies have the incentive to impose restrictive terms on MSPs, to place MSPs at a competitive cost disadvantage relative to the host utility company.
Uniformity of terms and conditions across the State	MSP prefer uniform terms and conditions so that the "set-up" costs of doing business in alternative service territories is minimized. Without uniformity, competition is unlikely to develop or will develop very slowly in smaller service territories.	Utility companies generally want to have full control of metering regulations which in turn leads to unique terms and conditions. This increases cost for competitors, is inefficient, and harms competition.

Q. What is the historical context and background in which you have analyzed issues in this case?

A. First, the Commission has already addressed a number of the related issues with respect to transition charges, embedded cost methodology and recovery of implementation costs. Second, the philosophy of the General Assembly is embodied in the Electric Customer Choice and Rate Relief Act of 1997 (the "Act"), in which it is explained that competition is a worthwhile endeavor; will result in the development of new products and services; and will lead to substantial economic benefits for customers. (*See* 220 ILCS 5/16-101A(b), (e).) Third, the Act, as well as the Commission proceedings to implement it, have afforded utilities significant benefits.

Benefits afforded to the utility companies in the Act include: securitization; the ability to sell generating assets with minimal Commission review; the ability to merge with minimal Commission review; the ability to enter into special contracts and "billing experiments" with little or no Commission review; the ability to compete both outside and inside their service territories; and the ability to collect transition charges under a lost revenue approach.

Q. Why are the benefits realized by utility companies under the Act relevant as a backdrop to your testimony?

A. These benefits conferred upon utility companies are relevant to the Commission's decision in this case ~~proceeding~~. This proceeding involves balancing costs and benefits of alternative positions where the final decision will not be perfect from the perspective of all parties. For example, attempting to guarantee "penny-by-penny" cost recovery favors utility companies, but would conflict with the development of vibrant competitive markets that favors consumers. In other words, when evaluating legitimate differences in position between MSPs and

incumbent utility companies in this case, the Commission should not evaluate tradeoffs – generally between cost recovery and encouragement of competition – in isolation. The Commission can take positions on the side of competition in this proceeding without jeopardizing the overall financial ~~overall~~ integrity of utility companies.

Given the clear legislative directive in Illinois to promote the development of a competitive market, and the obvious benefits that have been conferred upon the utilities under the Act, the Commission should err on the side of acting to encourage the development of competition for unbundled delivery services.

Q. Please summarize your understanding of the relevant Sections of previous Commission Orders that relate to the issue of credits for unbundled metering services.

A. In previous Interim Orders entered in this proceeding, the Commission has ruled that: (1) embedded costs should be used in establishing metering price provisions; (2) the price reductions from using an MSP should not impact the level of the transition charges; and (3) the utility companies should have the opportunity to recover implementation costs. (*See*, First Interim Order, dated April 12, 1999 at 25, 27-28; Third Interim Order, dated December 22, 1999 at 49.) Rather than re-argue these issues, I focus on the mechanics of the specific proposals.

III.
ECONOMICS OF IMPLEMENTATION COSTS

Q. What is your understanding of the nature of costs related to implementation of unbundling?

A. The utility companies assert that none of the estimated implementation costs would be incurred absent the Commission ordering the unbundling of metering services. However, the improvements that are being made in the information

systems have "subsidiary" benefits in repairing computer systems that would have been replaced in the future. Additionally, by virtue of having more advanced information systems, future efficiencies can be obtained. If a more sophisticated system is put in place, the operating cost of the system should be lower in the future. For example, the unbundling process can allow~~is causing~~ Edison to replace rather old computer systems that are currently being dealt with using a "band aid" approach. It would be difficult, if not impossible, for the Commission to measure precisely how much would have been spent to repair existing systems versus how much would be spent to supplement the existing systems to allow for unbundling of metering services.

Q. Please describe economic issues associated with implementation charges from a theoretical economic perspective.

A. Implementation costs are expenditures that are incurred by utilities as well as MSPs to change from a regulated system to a competitive system. In considering regulatory treatment of implementation charges, it is important to keep in mind that, as the electric system becomes competitive, **all customers benefit** if electric service becomes more efficient. Implementation expenditures are unlike many other cost items that can be traced to specific customers or customer groups. For example, costs associated with producing energy as kWh and costs associated with meeting demand can to a large extent be associated with specific customer groups -- the cost of meters can be traced to the customer groups who use a particular type of meter based on the number of meters in the customer class.

Implementation costs, on the other hand, are incurred to move from a monopolistic system to a competitive framework that will increase productive and allocative efficiency and will yield benefits to the entire business and residential customer base. ~~This means that~~ In the case of implementation costs, the benefits of making the expenditure cannot be traced to specific customers as may be the case with other outlays. Because competition has wide ranging benefits, if the implementation charges are imposed on a relatively small group of customers,

other customers will be "free-riders" and will gain the benefit of moving to competition without incurring the cost. In particular, assuming that the entire market will ultimately be competitive, implementation charges should not only be imposed on early adopters.

Q. Can customers who do not select a MSP benefit from unbundling of meters.

A. Yes, they can. First of all, even if customers do not select a MSP, the option they have to choose does provide them something of value. In other words, even if a customer retains the host utility for metering services, some customers could theoretically pay for the option to choose different MSPs over the long-term. In addition, the unbundling of metering services provides benefits to customers who do not choose MSPs because elimination of the utilities' monopoly on metering services itself puts pressure on the host utility company to improve service, provide innovations and lower costs. Indeed, the basic reason for movement away from monopoly service is that pressure from MSPs will enhance the efficiency of the market for the benefit of everyone. The broad range of benefits that will affect all customers suggest that implementation charges should be imposed on the entire customer base, rather than isolated to customers who choose MSPs in the beginning of the process.

Q. Do utility companies benefit from expenditures made for unbundling of metering services?

A. Yes. Incumbent utilities can receive a number of direct and indirect benefits. Utility companies can directly benefit from not having to incur continuing costs of providing metering services. Additionally, utilities can both indirectly and directly benefit from capital investments and operating technologies that new MSPs make in metering technology. These expenditures made by MSPs will move utilities toward more cost efficient and capable services. More importantly, utility companies have the option to provide increased value to their shareholders through embracing competition and providing advanced metering services – both in their service territories and in other service territories. In fact, IP has recently

gained notoriety in providing monitoring services that are being adapted by other utility companies.

Embracing competition can lead to significantly increased shareholder value because the utility companies can earn returns above regulated levels if they are particularly efficient and/or they offer innovative services. For example, many utility companies, including IP, are competing to provide generation services in the Edison service territory. Similarly, it would be surprising if utility companies did not gain metering business from customers in other service territories. Finally, utility companies can benefit from an increased ability to outsource metering services because of an increased number of suppliers in the market.

Expenditures, deemed implementation costs, will improve information systems, and ~~end~~ may also enhance the competitive position of a utility company. If systems are developed whereby the host utility can efficiently work with information from a MSP, the same systems may allow the host utility to efficiently work with metering information in other service territories. Similarly, if a computer system is being developed to allow consolidation of multiple bills as part of the unbundling process, this same system may be useful as a tool to differentiate products both inside and outside the utility's service territory. There will be significant benefits that the utilities will realize as a result of unbundling. Attempting to dissect implementation expenditures that can provide competitive benefits is not realistic.

Q. Do MSPs incur implementation costs?

A. Yes. As is the case for utilities, MSPs must incur costs to set up systems that will allow competition to take place. The costs experienced by MSPs to address issues in this proceeding are an example of implementation costs that are incurred by MSPs. The MSPs cannot choose to allocate these costs to utility companies, and unlike Edison and Illinois Power, cannot allocate these costs to customers who do not take their services. In theory, there will not be enough resources allocated to

implementation costs by MSPs because individual companies cannot retain all of the benefits of the expenditure. For example, if one company pays costs associated with this proceeding, all of the MSPs will benefit. Given this type of problem with encouraging providers to allocate resources to enter the market, further aggravating the problem by increasing costs to MSPs would be poor public policy.

Q. Can the method that is established to recover implementation costs influence and distort incentives with respect to implementation costs?

A. Yes. In deciding how to expend money to implement meter service unbundling, there are certain to be instances where alternative decisions can be made that are relatively more favorable to one group or another. For example, the utility company may choose to spend more money on implementation costs to assure that it receives credit information from MSPs. The MSP would probably prefer that the utility company make relatively small expenditures for this function. Alternatively, if the utility is guaranteed cost recovery without a detailed review of costs, it is likely to "gold plate" implementation activities, which are not in the best interest of customers. ~~For example, T~~the utility company may spend money making its tariffs excessively complex and detailed or it may spend a lot of money in litigating its position that costs should be allocated to MSPs.

In sum, if the utility company can recover every dollar of its implementation costs, it will have an incentive to choose activities that favor itself relative to other groups -- namely customers and MSPs. Indeed, the utilities have every economic incentive to make these implementation charges as high as possible because every incremental increase to these costs (which reduces the credit) operates to eliminate their competition in the long run. There can be no uncertainty as to this cause and effect relationship. Finally, while differences in interest exist with respect to making implementation expenditures, it is not realistic to micro-manage each implementation decision made by the utility company. Instead, policies that provide an opportunity, but not a guarantee, for recovery of implementation

charges against all customers provide more assurance that the incentives will not be skewed in favor of the host utility company.

IV.
OVERVIEW OF UTILITY COMPANY FILINGS

Q. How do the proposed tariffs reflect reduced payments by consumers to utility companies when alternative meter suppliers are selected?

A. The utilities propose to reflect the customer charge impacts of meter service costs in different ways. Edison proposes to separate its customer charge into two components – a standard metering service charge and a monthly customer charge. If an alternative MSP is used, the customer would pay only the monthly customer charge and not the standard metering charge. For example, in Edison's delivery service class that is between 101 kW and 400 kW per month, the two monthly charges (the metering charge and the customer charge) sum to $44.71 per month for customers who continue to retain metering services from Edison. For customers who choose an alternative MSP, the charge is $40.10 per month. In this instance, assuming no differences in quality, the MSP would have to offer its services for $4.60 or less per month in order to successfully compete.

In its January 2000 filing, Illinois Power had proposed imposing a separate charge upon MSPs for recovery of implementation costs. ~~In addition,~~ IP also initially included many fees for filling out forms, storing meters and special meter reads. However, in its May 2000 filing, IP's price structure is now much closer to Edison's.

Other utility companies have proposed different pricing structures. ~~Similar to Edison,~~ CILCO has two different ~~separate~~ customer charges, MidAmerican has separate charges for new customers; and Alliant includes some of the differences in meter costs in its demand charges.

Q. What does the change in the structure of Illinois Power's tariffs reveal?

A. The unique structure of IP's original filing was apparently not necessary. Despite inevitable utility protestations that there are unique circumstances for each company or because of pride in tariff writing skills, the IP revisions demonstrate that much more movement toward uniformity can occur in the MSP tariffs. IP and the other utility companies should adopt Edison's tariff language with the revisions recommended herein as a starting point.

Q. How will the tariff provisions of the utility companies affect the cost and benefit analysis of obtaining metering services from an MSP?

A. Consumers will choose an alternative MSP instead of the host utility company by assessing the costs and benefits of the alternatives. The benefit side of the customer's equation includes the quality of services offered by the MSP, innovations in information provided by the metering technologies and various other factors. Against these benefits, the customer must consider the costs of the alternative metering decisions, in particular, the cost of selecting a MSP in relation to the cost of maintaining service from the host utility company.

Q. How will customers weigh these costs and benefits?

A. When evaluating the costs and benefits of selecting an MSP, the differences in customer charges are the theoretical effective price for considering the cost of the decision. In theory, if the benefit side of the equation is identical for the utility company and the MSP, and if the MSP can provide the metering services at a lower cost than the amount of the difference in utility customer charges, the MSP should secure the business.

However, in initial stages of the market, this theoretical cost and benefit equation will not be representative of the real world and market conditions will favor the host utility company. MSPs will have to overcome customer inertia. MSPs are limited to only competing with advanced metering and the competitive firms will have to make significant expenditures analogous to the implementation costs

described by the host utility companies. Therefore, if the customer charge differentials in the utility company tariffs are set too low, the chances of a vibrant competitive market developing will diminish quickly.

Q. Are utilities across the State consistent in their proposed development of the customer charge for metering services and other aspects of the tariffs applicable to MSPs?

A. No. There are many examples of inconsistent treatment of similar issues including:

(1) The utilities have proposed to include different types of fees when a customer selects MSP. For example, Illinois Power proposes to charge up to $128 for meter handling charges related to removing existing meters, while Edison does not propose to impose any similar type of fee for customers using less than 10 MW. Given that Edison does not charge a removal fee, there is no reason that the Commission should allow IP or other utilities -- in whose service territories virtually no competition exists -- to charge such fees.

(2) Some utilities adjust their embedded cost determinations by imposing implementation charges, while other companies do not mention implementation charges in their testimony. Specifically, Edison, Illinois Power and Ameren include implementation adjustments while MidAmerican and Alliant do not discuss implementation charges. Given the various benefits utilities will receive as a result of unbundling, the positions of MidAmerican and Alliant seem reasonable on this point in large part because utility companies can recover costs through realizing benefits.

(3) For utilities that include charges for implementing unbundling, some propose to charge only customers that choose MSPs, while others

proposing charging all delivery service customers. For example, Edison and Illinois Power propose to impose implementation charges only upon customers who select MSPs, while Ameren would spread recovery of costs among all non-residential delivery service customers. If utilities are allowed to include implementation charges in prices, the costs should be recovered from all customers.

(4) Some utilities propose to change the level of delivery service charges to all delivery service ratepayers, while other utilities devise their calculations so that the overall delivery service rate does not change. For example, AmerenCIPS and AmerenUE increase delivery service charges for customers who do not select alternative MSPs while Edison and Illinois Power do not. Implementation charges should not be used as a price discrimination tool – imposed only on customers that select MSPs. The Ameren structure is more appropriate and recognizes that all utility customers will benefit from the innovations and efficiencies that competition in metering services will bring to Illinois.

(5) Each utility company has different terms and conditions for service provided by MSPs. Once provisions that increase costs to MSPs are removed from Edison's tariff, Edison's MSP tariff should be used as the basis for a statewide proforma tariff.

(6) One utility company – MidAmerican – has a different meter charge for new and existing customers, where the cost for new customers is higher than for existing customers.

(7) IP has continued to argue for adding costs it labels as the "supplier of last resort" in its testimony. While IP appears to have complied with the Commission directive that these costs not be included in delivery charges, the Company suggests that the costs should be allocated to customers that

choose MSPs. Being a supplier of last resort is a competitive benefit to the host utility company that is not available to other competitors and should not be used as a price discrimination tool. The Commission should clarify that costs of acquiring these competitive advantages not be charged to customers who select alternative MSPs.

Q. How have you evaluated the embedded cost studies for metering services presented by the utility companies?

A. Nineteen pieces of testimony were submitted by utility companies in the January 2000 filing and most of the testimony was revised in the May 2000 filings. Each utility company prepared a detailed cost study that included many allocations of items such as administrative and general expenses. In order to assure that costs have been allocated at an appropriate level – in particular to assure that allocated meter costs are not too low – one would have to delve into all costs and to fully understand the specific business activities that are booked in each account. Because this analysis would be extremely burdensome, the Commission should use other approaches to determine the level of embedded costs. These approaches include comparing the overall level of costs computed by different utility companies and comparing some of the general cost allocation approaches used by different companies.

Q. Please compare the level of embedded costs for metering services computed by the utility companies.

A. Recall that the higher the embedded cost computed by the utility company, the more likely it is that vigorous competition will develop. Table 2 compares the aggregate metering service cost per customer across the different utility companies (street lighting and railroad classes are not included).

Table 2
Comparison of Overall Bill Impacts from Selecting Meter Providers

Utility Company	Total Meter Cost of Service	Total Number of Monthly Bills to Non-	Average Cost per Customer Computed by	Metering Cost as a Percent of Total Delivery

	to Non-Residential Customers	Residential Customers	the Host Utility Company	Service Customer Charge
Edison	$ 9,041,27.43	3,405,638	$ 2.65	14.66%
MidAmerican	$ 433,628.40	105,648	$ 4.10	43.63%
Illinois Power	$ 4,824,885.7	749,676	$ 6.44	19.35%
Alliant	$ 149,581.07		$ 6.49	72.81%
Ameren				
CILCO				

All else equal, Table 2 demonstrates that Alliant has a cost structure and/or a cost methodology that is most favorable to the development of competition in metering services, while Edison has embedded costs that are least favorable to market development. (Ameren and CILCO are not included in the table because billing determinant data was not included in their May 2000 filings.)

Q. How does the level of embedded costs for metering services compare for selected customer classes.

A. The metering costs for different companies presented in Table 2 include costs to serve small commercial customers as well as large industrial customers. If a utility has a high concentration of relatively large customers, it should have higher meter costs that may not reflect a more favorable cost allocation method. Therefore, the Commission should compare metering costs for selected groups of non-residential customers.

Tables 3, 4 and 5 compare monthly bill differences for representative customers in the various utility's proposals. In comparing bill differences, ~~the Commission should~~ I examine the proposed impact upon a representative small business customer, a moderate sized business customer and a large industrial customer that are relatively similar in terms of electricity usage.

Table 3
Monthly Savings on Host Utility Bill From Using Alternative Metering Suppliers
Small Commercial Customers

Host Utility Company	Rate Class	Savings
Com Ed	0 kW-25 kW	$ 1.01
Illinois Power	Seg 1 (up to 15,000kWh) Single Phase	$ 1.99

MidAmerican	Rate SSE	$	0.84
Ameren	DS-1		
Alliant	General Service	$	4.33
CILCO	Rate 13	$	0.87

Table 4
Monthly Savings on Host Utility Bill From Using Alternative Metering Suppliers
Medium Sized Commercial Customers

Host Utility Company	Rate Class	Savings
Com Ed	26 kW – 100 kW	$ 2.98
Illinois Power	Seg 2 (< 200 kW) Single Phase	$ 3.95
MidAmerican	Rate STE	$ 8.21
Ameren	DS-2	$ 5.48
Alliant	Large Power Secondary	$ 54.80
CILCO	Rate 15	$ 5.82

Table 5
Monthly Savings on Host Utility Bill From Using Alternative Metering Suppliers
Large Industrial Customers

Host Utility Company	Rate Class	Savings
Edison	Over 10000kW	$ 184.13
Illinois Power	Seg 4 (>1,000 kW) Three Phase <138 kV	$ 109.64
MidAmerican	Rate SS	$ 8.21
Ameren	DS-4	$ 76.89
Alliant	Large Power Primary	$ 726.00
CILCO	Rate 21	$ 545.72

The tables demonstrate that IP and Edison have relatively low credits for large customers and that Alliant (Interstate Power) has favorable pricing across customer groups. This raises a question about the cost allocation methods used by Edison and IP and whether all costs have been allocated to metering service and/or whether too many revenue off-sets have been applied to the embedded cost formulations. ~~used.~~

Q. **Please compare the dollar level of the implementation costs that have been proposed by various utility companies.**

A. The filings demonstrate ~~It appears~~ that some utilities may have overstated their alleged implementation costs. To put their asserted costs in perspective, it is instructive to review the magnitude of cost estimates developed by utility

companies. Table 6 compares the dollar level of implementation costs for Edison, IP and Ameren based upon information contained in the May 2000 filing.

Table 6 Estimated Implementation Costs			
	Edison	Illinois Power	Ameren
Up-Front Costs	$ 12,600,000.00		$ 3,528,000.00
Recurring Costs	$ 640,000.00		
Total Annual Cost at Utility Amortization	$ 4,361,000.00	$ 1,140,405.00	
Implementation Cost per Customer	1.28	1.52	

Q. Have the estimated implementation costs for the utility companies changed between the filing in January and the filing in May?

A. Yes. One of the problems with implementation costs is the speculative nature of the estimates. Problems with the estimates are illustrated by how much the estimated costs have changed over a four month time period. Table 7 compares the up-front cost estimates presented by the utility companies in January 2000 and in May 2000.

Table 7 Changes in Estimated Implementation Costs			
	Edison	Illinois Power	Ameren
January Estimate of Costs	$ 6,892,000.00	$ 1,843,677.00	$ 10,243,000.00
May Estimate of Costs	$ 4,361,000.00	$ 1,140,405.00	$ 3,528,000.00
Decrease in Estimated Costs	$ 2,531,000.00	$ 703,272.00	$ 6,715,000.00
Percent Decrease	37%	38%	66%

The magnitude of the changes in Table 7 demonstrates the speculative nature of the implementation cost estimates. The data suggest that these cost estimates are not reliable for purposes of setting prices.

Q. How do the utility companies propose to impose implementation charges on

the various customer classes?

A. The manner in which implementation charges are imposed will have different impacts upon the various classes of customers. For instance, Edison's proposed method of imposing charges would impede development of competition for smaller customers. The following tables illustrate how the proposed implementation charges would impact costs for customers who choose to select MSPs other than the host utility company, comparing the metering costs with implementation charges and without implementation charges:

Table 8
Implementation Cost Impacts on Metering Charges for Edison

Edison Customer Class	Standard Metering Service Charge $/Month	Implementation Cost Reductions in Metering Charge $/Month	Implementation Charges as Percent of Metering Charge
Watt Hour	$ 1.01	$ 0.93	92%
0 kW-25 kW	$ 2.08	$ 1.01	48%
26 kW – 100 kW	$ 2.98	$ 1.39	47%
401 kW – 800 kW	$ 22.50	$ 3.12	14%
801 kW – 1000 kW	$ 26.04	$ 3.47	13%
1001 kW – 3000 kW	$ 52.13	$ 5.66	11%
3001 kW – 6000 kW	$ 105.93	$ 14.27	13%
6001 kW – 10000 kW	$ 151.77	$ 22.87	15%
Over 10000 kW	$ 184.13	$ 23.28	13%

Since 81% of Edison's meters are in the first three customer classes, Edison's proposed implementation charges would have a disproportionate negative impact upon the development of markets for alternative MSPs in those markets.

The impact of implementation costs on IP customers is illustrated in Table 9 below. The table demonstrates that IP has also allocated a disproportionate amount of the costs to relatively small customers.

Table 9 Implementation Cost Impacts on Metering Charges for Illinois Power			
Illinois Power Customer Classes	Standard Metering Service Charge $/Month	Implementation Cost Reductions in Metering Charge $/Month	Implementation Charges as Percent of Metering Charge
Seg 1 (up to 15,000 kWh) Single Phase	$ 1.99	$ 1.56	78%
Seg 1 (up to 15,000 kWh) Three Phase	$ 1.99	$ 1.56	78%
Seg 2 (<200 kW) Single Phase	$ 3.95	$ 0.52	13%
Seg 2 (<200 kW) Three Phase <2.4 kV	$ 14.01	$ 1.85	13%
Seg 2 (<200 kW) Three Phase <2.4-12.47 kV	$ 91.96	$ 12.13	13%
Seg 2 (<200 kW) Three Phase <34.5-69 kV	$ 99.20	$ 13.09	13%
Seg 2 (<200 kW) Three Phase <138 kV	$ 109.64	$ 14.46	13%
Seg 3 (<200-1,000 kW) Three Phase <2.4kV	$ 32.43	$ 4.28	13%
Seg 3 (<200-1,000 kW) Three Phase <2.4-12.47kV	$ 91.96	$ 12.13	13%
Seg 3 (<200-1,000 kW) Three Phase <34.5-69kV	$ 96.20	$ 12.69	13%
Seg 3 (<200-1,000 kW) Three Phase <138kV	$ 109.64	$ 14.46	13%
Seg 4 (>1,000 kW) Three Phase <2.4kV	$ 32.43	$ 4.28	13%
Seg 4 (>1,000 kW) Three Phase <2.4-12.47kV	$ 91.96	$ 12.13	13%
Seg 4 (>1,000 kW) Three Phase <34.5-69kV	$ 96.20	$ 12.69	13%
Seg 4 (>1,000 kW) Three Phase <138kV	$ 109.64	$ 14.46	13%

Q. Please summarize your conclusion regarding the utilities' filings.

A. The most important issue in comparing the utilities' filings is the embedded cost level for Edison and IP. The comparative data suggest that asserted costs for Edison (and to a lesser extent IP) are relatively low. This is perhaps because of the method Edison utilized for crediting revenues from non-standard service or because Edison does not include some metering functions such as costs related to meter tampering in the embedded cost analysis. In any event, the Commission should require Edison to explain why its embedded costs are significantly lower than the costs computed by the other utility companies.

V.

RECOMMENDATIONS FOR REVISING THE PROPOSED TARIFFS

Q. Summarize your recommendations with respect to alternative metering service provisions in the tariffs submitted by the utility companies.

A. The Commission should order the utilities to revise their tariffs in accordance with the following :

1. **Adjustments to customer charges from selecting alternative MSPs should not impact customer savings from choosing alternative suppliers for generation**. In accordance with Commission policy, the rates established in this case should not reduce the potential savings that customers can achieve from using an ARES for generation services where transition charges are in place. This means that the sum of the transition charges and the delivery service charges should be the same for customers who do not choose to select alternative MSPs as they would have been without tariff changes that occur in this proceeding.

2. **Metering service charges in delivery service tariffs should include all costs related to metering.** While utility companies seem to have included the most obvious cost items associated with metering in their cost analyses and have allocated administrative expenses, some metering costs seem to have been excluded. For example, Edison did not include costs of testing meters for tampering, replacing fuses in sealed meter boxes and installing check meters for load factor tests. In addition, other utility companies did not appear to allocate the costs of new customer information systems ("CIS") to metering service. (These costs were not in the test year accounts but were incorporated in delivery service rates as adjustments to embedded cost.)

3. **Implementation costs of unbundling should be imposed uniformly on all customers in the same manner.** All utility customers will benefit from the innovation and efficiencies that competition in metering services

will bring to Illinois. Indeed, the trip to competition will ultimately include all customers. Through spreading the information system and personnel training costs of implementation to all non-residential customers utility companies seem to recognize this. However, in setting the revised delivery service rates, Edison and Illinois Power Company ("Illinois Power" or "IP") have developed a framework whereby the implementation costs are assessed only upon customers who choose alternative MSPs. Utility companies should instead design rates that do not discriminate and charge all implementation costs uniformly to all customers MSPs. This approach would increase all delivery service rates by an amount equal to the costs of implementing unbundling of metering and would not impose the costs only on those customers who choose to switch meter suppliers. Finally, the increased delivery service charges should be used in computing all customers' transition charges.

4. **Speculative estimates of implementation costs should not be included in rates.** The utility companies generally begin their cost calculations by measuring the embedded costs of metering directly from their FERC Form 1 accounts. However, Edison, IP and the Ameren Companies ("Ameren") all propose to make adjustments to such costs that would incorporate estimates of up-front and on-going implementation expenditures primarily for computer systems and training programs, rather than using verifiable historic expenditures. The highly speculative nature of these costs is vividly illustrated by the difference in estimated costs filed by Ameren in its May 2000 filing compared to its January 2000 filing – the estimated costs in the January filing were $10.2 million and the estimated costs in the May filing were $3.5 million. (Large changes in cost estimates also occurred for Edison and IP.) These speculative implementation costs should not be included in rates without the Commission requiring additional assurances that the utility companies have used efficient business practices.

5. **The Commission should require a 40-year amortization period for up-**

front implementation costs. Implementation costs associated with unbundling of meter services should be amortized over a long period of time to reflect the fact that competition will provide benefits to all customers for an indefinite period. In addition to reflecting the timeframe of economic benefits, a longer amortization period will encourage development of competitive markets; will not be unduly harmful to the first customers to switch suppliers; and will provide a higher degree of assurance that utility companies can recover costs from all ratepayers.

6. **Terms and conditions of the metering tariffs should be standardized.** Without standard terms and conditions, it is possible that some competition might occur in the Edison service territory, however, it would virtually guarantee that little or no activity would occur outside of the Edison service territory. This has generally been the situation for competition in generation services over the past year, where competitive suppliers have become familiar only with the contracts, rates and fees imposed by Edison. Given this recent history of the lack of competitive development in generation, and the fact that competitive generation is a pre-requisite for unbundling of meters, the Commission should focus upon the terms and conditions in the Edison MSP tariffs as the starting point for all other Illinois utilities. Exceptions should be provided only where there are unique circumstances that are explained fully by the utility. In other words, after revisions to remove unnecessary cost increasing elements, the Edison tariff can be used as a statewide pro-forma metering tariff. For example, there is no reason that Ameren and IP should charge fees for things like filling out a DASR form or removing an existing meter while Edison does not charge such fees. It seems unlikely that MSPs will charge host utility companies fees for analogous activities.

Q. How should the Commission address the issue of implementation?

A. Utilities should not be entitled to impose implementation charges that differentiate prices between customers who choose alternative MSPs and customers who retain

the host utility for metering services. As explained below, with a longer amortization period and consistent treatment of implementation costs among customer classes, utilities should be provided the opportunity to recover reasonable implementation costs. In evaluating the way in which utilities recover implementation costs, the Commission should keep in mind the following:

1. Establishment of competitive markets benefits all customers – not only those customers who choose to switch metering suppliers in the near term.
2. While the utility companies assert that their implementation expenditures have no benefits other than allowing alternative MSPs to operate, the information system costs have benefits in defraying expenditures that would have otherwise occurred from upgrading existing systems.
3. Expenditures by utility companies on implementing systems to allow competition in their service territories will assist the utility companies in competing for advanced metering products both in their own service territory as well as in other utilities' service territories in Illinois and throughout the country.
4. Estimated expenditures for implementation costs are speculative and these estimates do not appear to include estimates of future cost savings that could occur as a result of efficiencies beyond the utilities' existing information systems.
5. Isolating implementation charges to customers who select alternative MSPs is particularly detrimental to competition because the MSPs who incur set-up costs do not have any analogous means to force recovery of their costs on consumers who do not select their services through regulated prices.

VI.

MECHANICS OF IMPLEMENTATION COST RECOVERY PROPOSED BY EDISON AND ILLINOIS POWER

Q. In analyzing implementation charges, why have you focused on the presentations of Edison and Illinois Power?

A. Edison and Illinois Power have adjusted the metering service credits for implementation charges and also recover the implementation charges only for those customers who select an alternative MSP. Relative to the proposals submitted by other utility companies, this policy is obviously more detrimental to MSPs and customers who chose to select service from companies other than the host utility company.

Q. How do Edison and Illinois Power account for implementation charges in its embedded cost analysis?

A. Edison and (in its revised filing) IP treat the implementation charges as a revenue-type item in the computation of embedded cost, even though implementation costs are obviously a cost outlay and not a revenue inflow. Through application of this approach, the implementation costs reduce rather than increase embedded cost. Implementation costs are obviously not a revenue item and this non-cost based adjustment is made only so that Edison and IP can recover implementation costs exclusively from customers who select metering services from MSPs.

Q. From a rate design perspective, how would implementation charges be assessed to customers who select MSPs under the Edison and Illinois Power proposals?

A. For customers who do not select MSPs, the charges are no different from the current delivery service tariffs. Since the basis of current delivery charges does not include implementation charges for unbundling metering services, this means that Edison and Illinois Power do not recover implementation costs from customers who retain the host utility company for providing metering services. Similarly, since rates have not changed for customers who are unbundled service customers, the implementation charges are not being recovered from these customers. Instead, because the metering service credits are lower than they would be had it not been for the implementation cost adjustment, the implementation charges are recovered from customers who select MSPs.

implementation costs?

A. The first approach used by Alliant, CILCO and MidAmerican is reasonable -- i.e., making no special provision for recovery of implementation costs. This alternative recognizes that utility companies have the opportunity to benefit from incurring implementation costs through competing in their service territory and in other service territories; through realizing lower costs for their own operations because of an increased number of suppliers in the market; and through achieving higher market values from embracing competition. These benefits could provide indirect recovery of the implementation costs. While this alternative is reasonable, since the cost recovery of implementation costs is not explicit, it may be difficult for the Commission to order.

Q. Is the second approach reasonable?

A. No. Directly charging delivery services customers would hinder the development of competition for generation. Nevertheless, the generation market is only beginning to develop and is impeded by the utilities' imposing transition charges. If implementation charges are imposed on customers, this approach is more appropriate than the Edison and IP approach. However, if this approach is utilized, there immediately needs to be certain adjustments to the transition charge calculation.

Q. Please describe how the third alternative – recovery from all customers over an extended time period – is a fair alternative from a regulatory policy perspective?

A. This alternative involves amortizing the costs over a longer period and allowing the costs to be recovered when rates change in the future. With a longer amortization period, the fact that recovery does not begin immediately protects shareholders of utility companies. Under this approach, costs can be spread over the entire customer base, the utility can have a reasonable chance to recover costs, and the policy does not harm development of competitive markets.

VII.

AMORTIZATION PERIOD FOR RECOVERY OF IMPLEMENTATION COSTS

Q. What are the general considerations that determine the period over which costs are amortized for the purpose of determining appropriate rates?

A. The amortization period of a cost should generally correspond to the time period over which the cost is useful. If a cost outlay provides benefits for less than a year – for example office supplies – that cost should be expensed to income during the current period. On the other hand, if a cost outlay on an item such as distribution equipment provides benefits over a thirty-five year time period, the expenditure should be spread across the thirty-five year life for rate purposes. In the case of implementation costs, the time period over which the expenditures provide a benefit is relatively long, since the benefits of a competitive marketplace will presumably last for generations. Given the fact that competitive markets will provide benefits for an indefinite period of time, the Commission should order the utilities to use a forty-year amortization period. This is similar to the time period used to allocate goodwill costs that are recorded after an acquisition.

Q. Are the implementation costs analogous to software or regulatory expenses that generally have amortization periods of five years?

A. No. The change from a regulated system to a competitive system will hopefully only happen once. This is unlike typical software systems that have an on-going use and will have to be replaced periodically. The outlays are also different from regulatory expenses associated with rate cases because rate cases are expected to recur on a periodic basis.

VIII.

METERING CREDITS AND TRANSITION CHARGES

Q. How do transition charges relate to the metering service rates that will be

implemented in this proceeding?

A. The Commission has concluded that competitive transition charges ("CTC's") should not be increased to compensate utility companies for revenues they may lose when customers select an alternative provider for unbundled services. In its Third Interim Order in this proceeding, the Commission reaffirmed its earlier conclusion: "In the April 12, 1999 Interim Order in this proceeding, the Commission found that utilities cannot increase the transition charge to off-set lost revenues associated with unbundled delivery service charges." (*See* Third Interim Order at 48; December 22, 1999.)

Delivery service revenues are a deduction from base rates in computing customer-specific and class-based transition charges. In developing the transition charge calculation, the delivery service revenue deduction should include both the customer charges that do not include metering service charges as well as the metering service charges. Furthermore, the delivery service revenue deduction from base rates in computing the transition charge should be the same whether or not a customer selects an alternative MSP.

In ordering the utilities to develop unbundled rates, the Commission should ensure fair rates that will promote competition; a vibrant competitive market will benefit consumers, competitors and the utilities.

Q. Should transition charges be revised in order to set equitable rates for both customers who select alternative meter providers and customers who retain the host utility company for metering service?

A. Yes. Customers are interested in the overall level of their bill – including transition charges, delivery services charges and market based generation prices. If delivery services charges for both bundled and unbundled customers are slightly increased to recover implementation costs, but the transition charges are reduced in the same magnitude, customers are generally indifferent during the period in which transition charges are in place. Since virtually all of the

competitive activity has occurred in the Edison service territory, the issue relating to delivery services customers who do not use alternative MSPs generally involves customers who incur a transition charge.

Delivery services charges should be increased in the same manner for all customers, regardless of whether they choose an alternative MSP. If implementation charges are imposed, they should be included in the customer charge portion of the tariff that is not the metering service charge. This means that all delivery services charges would be increased to reflect implementation charges. If delivery services charges are increased, transition charges should be reduced. Once this calculation is mated there is no difference in transition charges between customers who use alternative MSPs and customers who retain the host utility company for metering services.

All delivery services charges should be slightly increased to cover adjusted implementation costs (where implementation costs are amortized over 40 years and spread across all customers as well as high use residential customers). This method implies that transition charges should be reduced to reflect the higher delivery services charges, leaving overall bills for customers who do not select alternative MSPs unchanged during the transition period. My ~~This~~ method assures that the difference between electric bills for customers who select the utility company to provide metering service and customers who select alternative MSPs are not distorted.

Q. Could you please provide a hypothetical example to illustrate why the Commission should adopt this approach to prevent market distortions?

A. Certainly. Since mechanical operation of transition charges in relation to electric bills can be counter intuitive, a hypothetical example can illustrate the impact this pro-competitive approach would have compared to the utilities' proposals.

Assume that metering service costs are $10 and implementation costs as measured

across all non-residential customers are $5. (This is consistent with the cost method used by Edison.) Table 10 illustrates electric bill differences under the Edison approach and Table 11 illustrates bill impacts under the pro-competitive approach. These tables demonstrate that the Commission should endorse the approach shown in Table 11, where bill differences reflect the full cost of metering and are not distorted by selectively imposing implementation costs.

Table 10
Hypothetical Example using Edison Approach for Implementation Costs
Assumes $10 Meter Cost and $5 Implementation Cost

	Electric Bills for Customers who use the Host Utility for Metering Service	Electric Bills for Customers who use an Alternative Supplier for Metering Service	Difference in Electric Bills
Delivery Charges	20	15	5
Transition Charges	100	100	0
Market Purchases	200	200	0
Total Bill	320	315	5~~10~~

Table 11
Hypothetical Example using Recommended Approach for Implementation Costs
Assumes $10 Meter Cost and $5 Implementation Cost

	Electric Bills for Customers who use the Host Utility for Metering Service	Electric Bills for Customers who use an Alternative Supplier for Metering Service	Difference in Electric Bills
Delivery Charges	25	15	10
Transition Charges	95	95	0
Market Purchases	200	200	0
Total Bill	320	310	10~~5~~

Q. Have you reviewed the issue of transition charges and metering service credits in tariffs filed by utility companies in this proceeding?

A. Yes. However, I have not seen language in the CTC tariffs whereby the utilities clearly spell out that the delivery services charge deduction does not include metering service credits. This language should be clearly spelled out; this is especially important for customer-specific transition charges, to ensure that there is no misinterpretation when transition charges are computed on an individual basis for large customers.

Q. Please summarize your recommendations regarding the changes the Commission should order in establishing metering credits and calculating transition charges.

A. My preference is that implementation costs are not included in rates. However, if implementation charges are to be included in rates, they should be included in delivery services charges to all customers, that is both bundled and unbundled customers. If implementation costs are included in delivery services charges, the transition charges should also be adjusted.

IX.
THE COMMISSION SHOULD ENDORSE UNIFORM TERMS AND CONDITIONS

Q. What is your position regarding adoption of a uniform set of unbundled metering tariffs?

A. Certain members of the Unbundling Coalition have long advocated adoption of pro-forma delivery services tariffs. In Docket No. 98-0680, I testified at length regarding the benefits of uniform or pro-forma unbundled delivery services tariffs. (*See generally* ARES EXS. 1.0 and 4.0.)

Q. What are some of the benefits of development of a pro-forma set of unbundled metering tariffs?

A. By adopting a pro-forma unbundled DST approach, the Commission will be acting consistent with its legislative mandate to promote the development of a competitive market in Illinois. By bringing a reasonable degree of uniformity to

the provision of delivery services, widely varying terms and condition across utilities will be prevented. This is a preferable approach than bringing many, widely differing, unbundled MSP tariffs to the Commission and then continually bringing to the Commission amendments or other filings that have not been measured against a standard. As a result of not having standardized delivery services tariffs, the Commission is beginning to discover some of the hidden anticompetitive terms and conditions in the various utilities' tariffs.

Q. Would such a proforma tariff approach allow for differences among utilities?

A. Yes. Such an approach allows for enough room to accommodate legitimate differences among utilities upon a demonstration by the utility that deviation from the standard tariff is required.

Q. Has the Commission recognized the potential benefits of uniform unbundled DSTs?

A. Yes. In approving the various utility DSTs, the Commission indicated that a proceeding should be initiated to consider the development of a new set of delivery services tariffs that each utility might be required to use in place of the tariffs that are currently in effect. (*See* Order Docket Nos. 99-0120/99-0134 (cons.) at 160.) The Commission directed the Commission's Staff to oversee the development of these tariffs. (*See e.g.,* Order, Docket Nos. 99-0119/99-0131 (cons.) at 112.) The Commission indicated that such tariffs should be in place prior to January 1, 2001. (*See id.*)

Q. What is your recommendation in this case that will begin the process of uniformity?

A. I recommend that Edison's MSP tariff be the starting point. Once provisions of the tariff that increase costs to MSPs are removed, the tariff should be applied to the downstate companies. Exceptions from this modified tariff should only reflect rate structure and computer system requirements of the utility companies.

Q. What general changes should the Commission order Edison to make in its proposed MSP tariff?

A. The following general changes need to be made to Edison's proposed tariff:

1. Edison should allow the alternative MSPs to perform the final meter read on its behalf. If the MSP makes the final read on behalf of the utility company, much of the language involving special charges for off-cycle meter reads and special circumstances for facilities with multiple meters can be eliminated. In particular, there is no need to have special utility charges for the off-cycle meter reads if the utility company makes only one trip to the customer.

2. The provisions for "Other Charges" in the Edison MSP tariff should be eliminated. This provision does not allow the Commission to approve prices charged to customers and it is one-sided whereby Edison can impose charges upon alternative MSPs, but the reverse cannot happen. An example of problems that can occur with this type of undefined fee is in the delivery services tariff with respect to generation services. In Edison's delivery services tariff, there is a general provision that Edison can charge customers for services without specifying the dollar magnitude of the costs. In fact, Edison charges $15 for interval data, which can be a significant cost item when marketing to customers. Edison has been able to collect this fee without Commission review of the cost data.

3. I understand that the MSP tariff includes language from the proposed MSP certifications rules that will become Part 460 of the Commissions Rules and/or expends upon the language proposed for Part 460. There is no need either for redundancy or for Edison to make requirements on MSPs more stringent than the proposed MSP certification rules Part 460. The Commission should be free to change the MSP certification rules without worrying that the tariffs for each utility might have to be revised. In fact, the ARES certification rules are not repeated in the utilities' tariffs; there is no reason to repeat the MSP certification rules.

4. On sheet 190 of the MSP tariff, Edison directs the alternative MSP to assist the company in performing load research. Load research should not be the responsibility of alternative metering providers.

X.
SUMMARY OF RECOMMENDATIONS

Q. Could you please review your recommendations to the Commission?

A. Yes. My recommendations are:

1. Implementation costs should be spread across all customers.
2. Implementation costs should be added to delivery service rates in the same manner and at the same time for both customers who select alternative MSPs and customers who retain the host utility company.
3. Implementation costs should be adjusted downward and amortized over a 40-year time frame.
4. Embedded costs of metering should include all metering costs including costs associated with meter tampering, use of meters in load factor tests and allocated costs of customer information systems that are included in delivery charges.
5. Increases in delivery charges from imposition of implementation charges should be used in computation of class based and customer specific transition charges.
6. Terms and conditions in Edison's MSP tariff should be used for all utility companies in the State where these terms and conditions are modified to exclude conditions that will impose increasing cost burdens on MSPs without clearly demonstrated benefits.

Q. Does this conclude your testimony?

A. Yes.

Coalition Ex. 2.0

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission On Its Own Motion	)	
- vs-	)	
Central Illinois Light Company, Central Illinois Public Service Company, Commonwealth Edison Company, Illinois Power Company, Interstate Power Company, MidAmerican Energy Company, Mt. Carmel Public Utility Co., South Beloit Water, Gas and Electric Company, and Union Electric Company,	)	Docket No. 99-0013
Respondents,	)	
Investigation Concerning the Unbundling of Delivery services Under Section 16-108 of the Public Utilities Act	)	

REBUTTAL TESTIMONY OF EDWARD C. BODMER ON BEHALF OF BLACKHAWK ENERGY SERVICES, L.L.C., eMETER CORPORATION, ENRON ENERGY SERVICES, INC., NEWENERGY MIDWEST, L.L.C. AND PHASER ADVANCED METERING SERVICES

DATED: June 5, 2000

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission On Its Own Motion - vs- Central Illinois Light Company, Central Illinois Public Service Company, Commonwealth Edison Company, Illinois Power Company, Interstate Power Company, MidAmerican Energy Company, Mt. Carmel Public Utility Co., South Beloit Water, Gas and Electric Company, and Union Electric Company, Respondents, Investigation Concerning the Unbundling of Delivery services Under Section 16-108 of the Public Utilities Act	)	Docket No. 99-0013

REBUTTAL TESTIMONY OF EDWARD C. BODMER

Q. What is your name and on whose behalf are you testifying?

A. My name is Edward C. Bodmer. I am testifying on behalf of Blackhawk Energy Services, L.L.C., eMeter Corporation, Enron Energy Services, Inc., NewEnergy Midwest, L.L.C. and PHASER Advanced Metering Services (collectively, the "Unbundling Coalition").

Q. Have you previously testified in this proceeding?

A. Yes.

Q. Could you please summarize the recommendations to the Commission contained in your direct testimony?

A. Yes. As explained in my direct testimony, the Commission should enter an Order consistent with the following:

1. Implementation costs should be spread across all customers.
2. Implementation costs should be added to delivery service rates in the same manner and at the same time for both customers who select an alternative meter service provider ("MSP") and customers who retain the host utility company.
3. Implementation costs should be adjusted downward and amortized over a 40-year time frame.
4. Embedded costs of metering should include all metering costs including costs associated with meter tampering, use of meters in load factor tests and allocated costs of customer information systems that are included in delivery charges.
5. Increases in delivery services charges from imposition of implementation charges should be used in computation of class based and customer specific transition charges.
6. Terms and conditions in the Commonwealth Edison Company ("Edison") MSP tariff should be used for all utility companies in the State where these terms and conditions are modified to exclude conditions that will impose increasing cost burdens on MSPs without clearly demonstrated benefits.

II.
PURPOSE AND CONTEXT OF TESTIMONY

Q. What is the purpose of your rebuttal testimony?

A. My testimony reviews the twelve pieces of testimony offered by the Staff of the Illinois Commerce Commission ("Staff").

Q. Do you have any general comments regarding the Staff analysis?

A. Yes. Staff has done a commendable job in analyzing the filings, work papers and testimony of the utility companies. Many of Staff's recommendations, in particular with respect to implementation charges and uniformity in cost allocation procedures, are appropriate and should be adopted by the Commission. Aside from the substance in Staff's testimony, the sheer volume of analysis required by the Staff on the various tariff provisions clearly demonstrates the need for a pro forma tariff; the Edison tariff should be used as a starting point for all tariffs in the State.

Q. How is your rebuttal testimony organized?

A. My rebuttal testimony addresses three issues. First, I will evaluate Staff's recommendations with respect to implementation charges proposed by the utility companies. Second, I discuss the Staff analysis of the utilities' proposed cost allocation related to meter services. Finally, I address the Staff testimony as it relates to the issue of uniformity in tariff terms and conditions.

III.

STAFF'S RECOMMENDATIONS REGARDING IMPLEMENTATION CHARGES

Q. What is Staff's recommendation with respect to costs related to the implementation of unbundling?

A. Staff witness Thomas Smith recommends that if the costs of implementing unbundling were not incurred during the test year used to establish delivery services rates, those costs should not be used to immediately increase the rates for providing meter services. Instead, he recommends that issues relating to if and how the implementation costs should be recovered should be addressed in future rate cases that change the overall level of utility revenues. In short, he recommends that implementation costs should be treated the same as any other cost of service item.

Q. Is the Staff recommendation consistent with the recommendations and analysis presented in your direct testimony?

A. Yes. As explained at page 29 of my direct testimony, there should be no rate adjustment for the recovery of implementation costs in this proceeding. There are a number of issues with respect to implementation costs that would be better addressed in a future rate case, including: the benefits utilities receive from making expenditures; whether the expenditures would have to be made without unbundling; the proper allocation of the implementation charges among various types of customers; and the appropriate amortization period for implementation costs. In accordance with the testimony of Mr. Smith, these issues should all be addressed more appropriately and more completely in future rate proceedings.

IV.

STAFF'S ANALYSIS OF UTILITIES' ASSERTED EMBEDDED COSTS

Q. Please summarize Staff's proposed adjustments to the embedded costs allocation proposed by the utilities.

A. The Staff has attempted to assure that all of the utility companies are consistent in allocation procedures with respect to metering services. Staff recommends that the utilities use the general cost allocators that were approved by the Commission in the utilities' recent delivery services tariff proceedings. For example, Staff witness Peter Lazare recommends that the Commission require Edison to use the Staff methodology rather than analyzing costs on a function-by-function basis. As noted in my direct testimony at page 19, the result of Edison's proposed methodology would be to minimize the amount of the meter credit large customers would receive. Mr. Lazare properly notes that absent a compelling reason, the Commission should use the same methodology for all utilities.

Q. Do you generally agree with the Staff approach to cost allocation and measurement?

A. Yes. Staff appropriately recommends that utility companies should be required to

use uniform methods for cost measurement. There should be uniformity throughout the State in both cost allocation and cost recovery methods.

Q. Does the Staff adjustment to Edison's proposed embedded cost explain why Edison's costs are significantly lower than the other utility companies?

A. No. The difference in cost allocation procedures results in a relatively minor change in Edison's meter cost per customer. Edison's total cost of $2.65 per customer compares with $4.10 for MidAmerican, $6.44 for Illinois Power and $6.49 for Alliant. The burden is on Edison to demonstrate that its asserted costs are just and reasonable. Unless and until Edison provides a rational explanation for these significant differences, the Commission should reject Edison's proposed credit and instead approve a credit based upon the average of the costs reported by the other utility companies.

Q. Do you generally agree with the Staff approach to rate design?

A. In general, yes. Again, the Staff properly advocates a uniform approach to rate design. However, the Commission should seriously question whether the utilities should be allowed to include various fees in their tariffs. As Staff witness Smith properly notes, expenses are properly dealt with in the context of a more general rate case, in which all of the utilities' revenues and alleged costs would be evaluated. In particular, the Commission should ensure that utilities do not use the fee-based approach to skew revenue recovery. That is, if the Commission allows fees to be included in metering tariffs, the revenue generated by these fees should be reflected in the rate design of the utility companies. As a general rule, it does not appear that the utilities have adjusted their billing determinants to reflect a revenue stream associated with recovery of these fees.

Q. Do you still have another specific concern with respect to the meter service costs proposed by Edison?

A. Yes. Staff appears to have not accounted for Edison's calculation of costs associated with providing service under its meter lease rate, Rider 7. Instead of

using the embedded cost approach that was ordered by the Commission in its Third Interim Order, Edison proposes to use a "lost revenue" approach. Since the Rider 7 charges are not based on embedded cost, the deduction of Rider 7 revenues serves to lower metering service revenue requirements. As explained in detail in my direct testimony at pages 4 to 8, understating the metering service revenue requirement will stifle competition. Consistent with Staff's general approach, and as required by the Commission's Third Interim Order, the Commission should direct Edison to use an embedded cost methodology to calculate the revenue requirements associated with Rider 7.

V.

STAFF'S ANALYSIS AND UNIFORMITY

Q. Please comment upon the analysis conducted by Staff and how that analysis relates to your recommendation that the Commission use Edison's proposed MSP tariffs as a pro forma template for other utilities' MSP tariffs.

A. As a general matter, the effort that Staff has had to make in evaluating different tariffs is illustrative of the resources that will have to be expended by MSPs in competing in service territories other than in the Edison service territory. More specifically, the testimony of Staff witnesses Janis Freetly, David Borden, John Hendrickson, and Christel Templeton each supports the use of a pro forma tariff. A pro forma MSP approach is consistent with the Commission's statements in the utilities' delivery services tariff proceedings that it desires utilities to develop a uniform set of delivery services tariffs.

Q. Please explain how the effort necessary to compile Staff's testimony demonstrates the need for pro forma meter service tariffs.

A. The difference between analysis of one tariff and analysis of eight different tariffs illustrates the costs that will be imposed on competitive suppliers if there is no pro forma tariff. If an MSP markets in franchised territories other than Edison, it will have to assure that its marketing representatives understand the different terms in

each tariff. In the same way that Staff required twelve pieces of testimony rather than one or two, MSPs will have to train their staff and develop business systems that use far more resources than the systems would require with a single statewide tariff. Furthermore, to the extent that different tariff requirements cause different costs to be incurred, the MSPs would have to develop different pricing structures, programming and system enhancements. Put simply, lack of uniformity would make competition exponentially more difficult.

Q. Please summarize the testimony of Staff witness Freetly regarding Edison's MSP tariff.

Staff witness Freetly suggests that provisions of the Edison MSP tariff are too restrictive with respect to insurance provisions imposed on MSPs. In particular, she notes that "thirty days is a more realistic time-frame for the MSP to obtain commercial liability insurance coverage if its authorization to self-insure is revoked." (Staff Ex. 19 at 3.) Ms. Freetly also testifies that credit requirements imposed upon MSPs who utilize surety companies are more restrictive than the requirements contained in the proposed MSP Certification Rules. She recommends alternative language that should also be addressed in the MSP Certification rulemaking.

Q. Are Staff witness Freetly's criticisms of Edison's proposed MSP tariff appropriate?

A. Yes. However, her recommended changes regarding the insurance provisions should be made in the MSP Certification rulemaking, ICC Docket No. 00-0182, rather than in Edison's MSP tariffs. Replicating language in the MSP tariffs that is already contained in the proposed MSP Certification Rules in the MSP tariffs is unnecessary and is costly to competitive suppliers. The Edison tariff and all other utilities' MSP tariffs (which should be based upon the revised Edison tariff) should simply refer to language in the MSP Certification Rules.

Q. Please comment on the recommendations of Staff witness Freetly with regard to other utilities' proposed MSP tariffs.

A. Ms. Freetly generally suggests that the utility companies should comply with the language in the MSP Certification Rules. There is no sound policy reason to allow a situation where MSPs competing in one geographic franchised service territory have more restrictive certification requirements imposed upon them than in another service territory. The fact that tariffs of the various utility companies do not even comply with language in the MSP Certification Rules highlights the problems that can arise both from having non-uniform tariffs and from not directly referring to the language contained in the MSP Certification Rules. Revising Edison's MSP tariff to simply incorporate the MSP Certification Rules by reference, and then using Edison's revised tariff as the basis for other MSP tariffs across the State, would solve these problems

Q. Do you take issue with any of Ms. Freetly's testimony?

A. Yes. Ms. Freetly appears to suggests that Illinois Power Company ("Illinois Power" or "IP") should be allowed to have credit security standards that are more restrictive than the standards in the proposed MSP Certification Rules. There is no basis to impose different credit requirements upon MSPs who provide service in Illinois Power's service territory. If Illinois Power's proposal were accepted, the exact same MSP providing the exact same service to the exact same type of customer would be subject to stricter credit requirements in Decatur than in Chicago. This is merely yet another anticompetitive proposal put forth by Illinois Power and should be rejected by the Commission.

Q. How does your pro forma tariff recommendation compare with the testimony of Staff witness David Borden regarding charges for off-cycle meter reads?

A. Mr. Borden's testimony is consistent with the notion of revising Edison's MSP tariff and then using the revised tariff as a basis for tariff language for the other utilities. In discussing charges for off-cycle switching, Mr. Borden correctly

notes that "the possibility exists that the companies could over-recover labor related travel costs incurred in the meter reading charges." (Staff Ex. 18 at 8.) He also recommends that companies should explicitly state the charges for off-cycle meter reads so that "the charges are not subject to the potential for variation on an ad hoc basis." (*Id.* at 9.)

As discussed in my direct testimony at page 36, a fee for off-cycle meter reads would not be necessary if MSPs were allowed to perform the final meter read as suggested in my direct testimony in the instant proceeding. If MSPs perform the final meter read, no off-cycle meter work by the utility company would be necessary nor would any added fees be necessary. However, if some fee is included in the MSP tariff for off-cycle meter work, the amount should be explicitly stated in the tariff as recommended by Staff witness Borden, and the fee should be the same for all utilities in the state. There is no persuasive reason that the costs of meter reads for Edison should be so different than the other utility companies to warrant different fees for each utility company. Further, if the Commission approves this fee-based approach, estimated revenues from the fees should be used as billing determinants in the meter service rate design.

Q. How does your recommendation relate to the testimony of Staff witness David Borden with respect to proposed meter handling charges for the other utilities?

A. Mr. Borden recommends rejecting IP's meter handling charge, persuasively explaining that IP will use the meter for other customers. Mr. Borden makes similar points with respect to the proposed meter removal charges for CILCO and Alliant. Consistent with this observation, the Commission should direct Edison to delete its proposed charges for metering removal charges for customers who use more than 10 MW/month. Once Edison's tariff is revised as recommended, it should be used as a basis for tariff language for all of the other utility companies.

Q. How does your pro forma recommendation compare with the testimony of Staff witness Borden with respect to IP's proposed registration requirements?

A. Mr. Borden's testimony that IP's requirements "would be a waste of everyone's time and resources" is consistent with the notion of using Edison's MSP tariff language as a standard tariff for all other utilities in the state. (*See id.* at 13.) Mr. Borden's analysis of IP's suggested registration requirements properly suggests that the IP language should not be added to the Edison MSP tariff and should not be included in any other utility's MSP tariff.

Q. Is Staff witness Borden's testimony with respect to proposed customer eligibility requirements consistent with your testimony?

A. Yes. Mr. Borden highlights the widely varying language defining customer eligibility in the MSP tariffs proposed by the utilities throughout the state. Specifically, Edison and IP propose to prohibit customers that have only a portion of their load served under delivery services tariffs from being eligible to take competitive metering services. Other utilities do not propose such a restriction. Not only is the requirement in the case of Edison and IP inappropriate, the different requirements impose unnecessary costs on MSPs whereby they have to work with different marketing strategies in different service territories. Edison's proposed MSP tariff should be revised in accordance with Mr. Borden's recommendation and then the same language should be used for the other utility companies.

Q. How does the testimony of Staff witness John Hendrickson regarding the proposed administration fees compare to your testimony regarding the need for pro forma tariffs?

A. Mr. Hendrickson's testimony regarding administrative fees illustrates the need for uniformity. On the one hand, Mr. Hendrickson asserts that a $6.00 administration fee is reasonable for IP; but on the other hand, no other company in the State proposed such a fee. If it is reasonable for Edison, CILCO, Ameren,

MidAmerican and Alliant **not** to charge an administrative fee, it is simply unreasonable for IP to charge an administration fee. As explain in my direct testimony at pages 11 to 12, because of competitive forces, the MSPs cannot charge utility companies for their administrative costs. The method of not requiring an administration fee should be used for all MSP tariffs in the state.

Q. Does the testimony of Staff witness Hendrickson with respect to proposed registration fees likewise highlight the need for uniformity in MSP tariffs?

A. Yes. Mr. Hendrickson concludes that a $20.00 registration fee is reasonable for IP, Ameren and CILCO, while implicitly concluding that the proposals by the other companies not to charge such a fee is also reasonable. If it is reasonable for Edison, MidAmerican and Alliant to have **no** fee, it cannot be reasonable for IP, Ameren and CILCO to charge a registration fee. MSPs cannot charge utility companies analogous fees for registering to enter into contracts. The Edison method of not requiring an administration fee should be used for all MSP tariffs in the state.

Q. Does the testimony of Staff witness Hendrickson regarding the utilities' proposed DASR fees again highlight the need for uniformity?

A. Yes. Mr. Hendrickson concludes that a $6.00 DASR fee is reasonable for IP while a $5.00 DASR fee is reasonable for Ameren, MidAmerican and CILCO. Apparently, he concludes that the zero fee for Edison and Alliant is also reasonable. If it is reasonable for Edison and Alliant to have **no** DASR fee, it is not reasonable for the other companies to charge a DASR fee. The Edison method of not requiring a DASR fee should be used for all other MSP tariffs in the state.

Q. Is the testimony of Staff witness Christel Templeton with respect to differences in language on joint meets for different utility companies consistent with your recommendations?

A. Yes. Ms. Templeton testifies that requirements for joint meets required by

CILCO and Interstate Power are not appropriate. Instead, she recommends that the approach used by Edison – i.e. to not require a joint meet – should be used by all of the utilities. Ms. Templeton's testimony supports the use of the Edison tariff for all utility companies in the State.

Q. Similarly, is the testimony of Staff witness Templeton on the issue of data collection requirements proposed by IP consistent with your pro forma tariff recommendation?

A. Yes. Ms. Templeton appropriately testifies that "If IP has a meter installed that collects more data than is needed to fairly and accurately bill the customer, the MSP should not be required to install a similar meter." (Staff Ex. 17 at 11.) The utilities should not be allowed to impose requirements that artificially inflate the costs incurred by alternative meter service providers. Once again, use of the Edison tariff for all companies in the State would solve this problem.

Q. Please summarize why the Staff testimony supports the development of a pro-forma MSP tariff.

A. The Staff testimony in general explains that widely varying terms and conditions in MSP tariffs should be eliminated. Such an approach is consistent with the Commission's legislative mandate to promote the development of a competitive market in Illinois and is consistent with previously declared Commission policy.

Q. How should the Commission accomplish this goal of uniformity?

A. As stated herein and in my direct testimony, the Commission should revise Edison's MSP tariff and use it as the starting point for a statewide, uniform MSP tariff.

VI.

STAFF'S RECOMMENDATIONS SUPPORT THE RECOMMENDATION OF THE UNBUNDLING COALITION

Q. How do your six recommendations compare with the Staff direct testimony?

A. Recall that in my direct testimony, there were six specific recommendations:

1. Implementation costs should be spread across all customers.
2. Implementation costs should be added to delivery service rates.
3. Implementation costs should be amortized over a 40-year time frame.
4. Embedded costs should include all metering service costs.
5. Implementation costs should be accounted for in the transition charges.
6. Terms and conditions in a revised Edison tariff should be used.

Each of these recommendations is consistent with the testimony of Staff. First, given the testimony of Staff witness Smith, the Commission should direct the utilities to use the cost recovery approach outlined in my direct testimony in their next delivery services rate case. That is, in the next rate case, the utilities should be required to follow recommendations 1, 2, 3, and 5. Staff appropriately recommends that the utilities need to include additional metering services costs, consistent with recommendation 4. Finally, the general recommendations in most of the Staff testimony to eliminate the widely varying terms and conditions, as well as the sheer volume of the Staff testimony supports the Commission endorsing a pro forma tariff, consistent with recommendation 6.

Q. Does this conclude your testimony?

A. Yes.